PART 9

MONTANA TAX STUDY

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PART NINE

RECENT DEVELOPMENTS IN TAXATION IN OTHER STATES

by

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A staff paper submitted through the Tax Study Task Force to the Montana Legislative Council Subcommittee on Taxation.

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PART NINE

RECENT DEVELOPMENTS IN TAXATION IN OTHER STATES[1]

by Layton S. Thompson

Introduction

Montana is subject to the same forces, operating in 49 other states, which have caused state and local government expenditures to be the fastest growing sector of the national economy since World War II. These forces, associated with economic development and change, such as increased emphasis on education to equip a fast-growing population to deal with the scientific-technological explosion, the need for highways to accomodate increasingly heavy traffic, urbanization and the need for services to go with it, and health and sanitation problems have been treated elsewhere in this study.

The problems of providing revenue to meet these needs vary among the states. Differences in revenue needs and in tax bases must be taken into account. However, there are some problems common to all the states and direct comparisons can be made between states with similar characteristics. It should be useful to any given state to have a look at what is going on in other states.

In this part some pertinent changes in methods of financing public services will be reviewed for all 50 states. Also, a short review will be made of changes which have occurred recently in each of several states near Montana. All of the Great Plains and the Western states are included, excepting California, plus three states to the east of the plains area (Indiana, Iowa and Minnesota) which were included because of their close relationship to the Montana economy or because of some interesting innovations in matters of public finance.

No attempt has been made here to provide a detailed description of the tax systems of the individual states. Rather, the purpose has been to highlight changes in major sources of state and local revenues. Of special interest is the attempt to shift some of the load from property taxes to other sources, particularly to sales taxes and income taxes. As a part of this story, some attention has been given to school foundation and school equalization programs and to methods of allocation of state school funds to counties and school districts.

Interesting changes have been made in many states in licenses, franchises, pari-mutuel taxes, inheritance taxes, poll taxes, chain store taxes, and so on but the revenue from these sources is not sufficient to justify including them in this survey.

It should be emphasized that much of the additional revenue to meet increased needs has been generated by the postwar economic expansion which has been in part the cause of expanded revenue needs. (Although state and local government expenditures have far outstripped the overall rate of economic expansion.) In any treatment of public revenue sources and needs, it is important to point out this relationship for two reasons. The first is that economic growth is a basic need if many of the problems of public finance are to be solved. As the economy grows,

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1. A list of sources used in preparation of this part may be found at the end of the chapter.

so does the general tax base. Measures which would encourage economic growth, or at least have a neutral effect, would therefore be preferred, and measures which tend to inhibit economic growth would better be avoided.

Secondly, from the standpoint of tax structure, less need for constant legislative adjustment will arise if taxes are included whose yield is correlated directly with economic growth. The income tax and the general sales tax would rate fairly high based on this criterion. A tax system depending heavily on the general property tax would rate less well on this score in modern times.

Although economic growth has increased the traditional tax base of state and local governments in postwar years, legislatures have been forced to supplement the property tax with new taxes and increased rates on existing revenue sources. The postwar problems treated here are universal among the states although, as a result of some changes in tax laws and the recent four-year expansion in the U.S. economy, in a few states (e.g., Michigan, Pennsylvania, Wisconsin and Texas) anticipated deficits had turned into unexpected and unaccustomed surpluses by 1965.

New Major Taxes, 1959 to 1966

During the period from 1959 to 1963, there were 11 new tax adoptions. General sales taxes were imposed by Kentucky (1960), Texas (1961), Wisconsin (1962), and Indiana (1963). Personal income taxes were imposed by New Jersey (on commuters only, 1961), West Virginia (1961), and Indiana (1963). Indiana began taxing corporate income in 1963. Cigarette taxes were enacted in California (1959) and Virginia (1960). Oklahoma voted out liquor prohibition and enacted alcoholic beverage taxes in 1959.

Colorado adopted a state cigarette tax of 3 cents per pack in 1964 and increased the rate to 5 cents per pack in 1965. The cigarette tax was already in use in several Colorado cities. For example, Aurora imposes a 4 cent tax on cigarettes, making the total tax 9 cents per pack.

In 1965, three states decided to levy new major taxes. General sales taxes were adopted by Idaho and New York and Nebraska enacted two major taxes, a personal income tax and a corporate income tax. The fate of the new Nebraska taxes is in doubt pending results of a referral to the voters in the November election. Oregon voters approved a new 4 cent cigarette tax in May, leaving North Carolina as the only state without a cigarette tax.

In the Spring of 1966, Massachusetts imposed a new 3 percent sales and use tax, effective April 1, New Jersey imposed a 3 percent sales tax effective July 1, 1966, and Virginia enacted a 2 percent sales and use tax which will go into effect on September 1, 1966. On July 1, 1968, the rate will be increased to 3 percent. One-half the 2 percent rate and one-third of the 3 percent rate will be distributed to the cities and counties of the state. Cities and counties are also authorized to enact 1 percent sales tax ordinances in addition to the state tax.

These changes bring the totals to 49 states levying taxes on cigarettes, 42 states with general retail sales taxes, 34[2] states with individual income taxes, 37[2] states with corporation income taxes, and 50 states with gasoline taxes. See Table 1.

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2. These figures will be 35 and 38 respectively for personal income taxes and corporation income taxes if the voters approve the Nebraska law.

TABLE 1

RATES OF SELECTED STATE TAXES AS OF JULY 1, 1966

State	Individual Income Tax: Taxable Income Up To	Rate (%)	Taxable Income In Excess of	Rate (%)	Corporation Income Tax (%)	Retail Sales Tax (%)	Cigarette Tax Cents Per Pack	Gasoline Tax Cents Per Gallon
Alabama	$1,000	1.5	$5,000	5.0	5.0	4.0	7¢	7¢
Alaska	16% of Fed. Inc. Tax				18 Fed. Tax	0	8	8
Arizona	1,000	1.3	8,000	5.9	1.3 - 6.6	3.0	6.5	7
Arkansas	3,000	1.0	25,000	5.0	1.0 - 5.0	3.0	8	7.5
California	2,500	1.0	15,000	7.0	5.5	3.0	3	7[a]
Colorado	1,000	3.0	10,000	8.0	5.0	3.0	5	6[a]
Connecticut	No general income tax				5.25	3.5	8	6
Delaware	1,000	1.5	100,000	11.0	5.0	0	7	7
Dist. of Col.	5,000	2.5	25,000	5.0	5.0	3.0	4	6
Florida	No general income tax				0	3.0	8	7
Georgia	1,000	1.0	10,000	6.0	5.0	3.0	8	6.5
Hawaii	500	2.25	30,000	11.0	5.85-6.44	4.0	40% Whls.	8.5-11.0
Idaho	1,000	2.5	5,000	9.0	6.0	3.0	7	6
Illinois	No general income tax				0	3.5	7	5
Indiana	2% of Adjusted Gross				Same	2.0	6	6
Iowa	1,000	.75	9,000	4.5	4.0	2.0	8	7
Kansas	1,000	2.5	7,000	6.5	4.5	3.0	8	5
Kentucky	3,000	2.0	8,000	6.0	5 - 7	3.0	5	7
Louisiana	10,000	2.0	50,000	6.0	4.0	2.0	8	7
Maine	No general income tax				0	4.0	8	7
Maryland	3% flat rate				5.0	3.0	6	7
Massachusetts	2½% + 23% surtax = 3.075				6.76	3.0	10	6.5
Michigan	No general income tax				0	4.0	7	6
Minnesota	500	1.5	20,000	12.0	10.23	0	8	6
Mississippi	5,000	2.0	10,000	3.5	Same	3.5	9	7
Missouri	1,000	1.0	9,000	4.0 less 135	2.0	3.0	4	5
Montana	1,000	1.1	7,000	7.9	5.25	0	8	6
Nebraska	No general income tax[b]				b	0	8	7.5
Nevada	No general income tax				None	2.0	7	6
N. Hampshire	No general income tax				None	0	21% Retail	7
New Jersey	Commuters income tax only				1.75	3.0	11	6
New Mexico	10,000	1.5	100,000	6.0	3.0	3.0	8	6
New York	1,000	2.0	15,000	10.0	5.5	2.0	10	6
N. Carolina	2,000	3.0	10,000	7.0	6.0	3.0	0	7
N. Dakota	3,000	1.0	15,000	11.0	3 - 6	2.25	8	6
Ohio	No general income tax				0	3.0	5	7
Oklahoma	1,500	1.0	7,500	6.0	4.0	2.0	8	6.58
Oregon	500	3.0	8,000	9.5	6.0	0	4	6
Pennsylvania	No general income tax				6.0	5.0	8	7
Rhode Island	No general income tax				6.0	4.0	8	7
S. Carolina	2,000	2.0	10,000	7.0	5.0	3.0	5	7
S. Dakota	No general income tax			Selected	4.5	3.0	8	6
Tennessee	No general income tax				4.0	3.0	7	7
Texas	No general income tax				0	2.0	11	5
Utah	1,000	2.0	5,000	6.5	6.0	3.0	8	6
Vermont	1,000	2.0	5,000	7.5	5.0	0	10	6.5
Virginia	3,000	2.0	5,000	5.0	5.0	2.0[c]	3	7
Washington	No general income tax				0	4.2	11	7.5
W. Virginia	2,000	1.2	200,000	5.5	0	3.0	7	7
Wisconsin	1,000	2.7	14,000	10.0	2 - 7	3.0	10	7
Wyoming	No general income tax				0	2.5	4	5

a Add 1 cent temporarily, repair flood damage.

b Flat rate tax imposed as of January 1967, future in doubt.

c Effective September 1.

Increased Tax Rates

The nature of some taxes is such that it is difficult to construct tabulations of rates showing comparison between states and trends in rate levels. Beverages, for example, are subject to a variety of ad valorem taxes and gallonage and per barrel taxes with rates varying with percentage of alcohol and sometimes with origin. Motor vehicle license patterns and motor carrier taxes are complex, also, usually varying with type and weight of vehicle. Property tax rates as such have little significance. Comparisons of property tax collections per capita and as a percentage of income between states were treated in another part.

The significance of the data presented in Table 1 and the following summary of changes in tax rates is that they illustrate the pressure on states to search for new sources of revenue and lighten the relative load of property taxes by turning to the general sales taxes, personal income taxes, corporation income taxes, motor fuel taxes, cigarette taxes and taxes on alcoholic beverages.

Sales Taxes.--Second only to property taxes in importance as a source of state and local revenue are the sales and gross receipts taxes (Table 2). Since there is neither a national sales tax or national property tax, state and local levies on these sources do not overlap with the federal structure. Since 1959, nine states have imposed new general sales taxes (including Massachusetts, New Jersey, and Virginia in 1966). In addition, from 1959 to 1963, sales tax rates were increased by 14 states and the District of Columbia (in three states--Illinois, Pennsylvania and Utah--rates were increased twice during this period). In 1964, Mississippi and Rhode Island each increased the sales tax rate from 3 percent to 3.5 percent and in 1965 seven states increased their sales tax rates. They were: Colorado (from 2 to 3 percent), Hawaii (3.5 to 4), Kansas (2.5 to 3), Rhode Island (3.5 to 4), South Dakota (2 to 3), Washington (4 to 4.2), and Wyoming (2 to 2.5). The sales tax has been broadened in recent years in several states to include such items as services, including hotel and motel rentals. In addition to the state sales tax rates tabulated in Table 3, several states permit the use of sales taxes at county or municipal level.

Cigarette Taxes.--Increases have come more often in cigarette taxes in recent years than in any other tax. In all, cigarette tax rates were raised in 48 instances from 1959 to 1963. Five states increased rates in 1964 and there was a record or 22 raises in 1965. Massachusetts has increased the rates in 1966 (from 8 cents to 10 cents per pack) and an increase is being considered in at least three other states. West Virginia increased the rate from 6 cents to 7 cents per pack. Oregon voters approved a new 4 cent cigarette tax in the May primary election and a proposal to keep all of the present 8 cent tax in Montana will be voted on in the regular election in the fall.

Taxes on Alcoholic Beverages.--Thirty-four states and the District of Columbia raised taxes on one or more forms of alcoholic beverages from 1959 to 1963 (distilled spirits, beer and wine). This total includes some liquor monopoly states where the increase was in the form of increased prices of goods sold through state stores. Alcoholic beverage taxes were raised in three states in 1964 and by six states in 1965. At least one state (Massachusetts) has increased alcoholic beverage taxes in 1966.

Gasoline (motor fuel) Taxes.--Sixteen states increased motor fuel tax rates from 1959 to 1963 (some on gasoline, some on other fuels). Only one state raised its motor fuel rate in 1964, (Maryland from 6 cents to 7 cents).

TABLE 2

TAX REVENUE SOURCES FOR STATE AND LOCAL GOVERNMENTS IN THE UNITED STATES, FISCAL 1964*

In Billions of Dollars

	Amount	Percent
Individual income taxes	3.8	7.9
Corporate income taxes	1.7	3.6
Sales and gross receipts taxes	15.8	33.1
Property taxes	21.2	44.3
Other taxes	5.3	11.1
Total	47.8	100.0

*Source: Monthly Review - Federal Reserve Bank of New York, Sept., 1965, p. 190.

TABLE 3

STATE SALES TAX RATE DISTRIBUTION AS OF JULY 1, 1966 (42 STATES AND DISTRICT OF COLUMBIA)

Rate (percent)	Number of States
2.0	9[a]
2.5	1
3.0	23[b]
3.5	3
4.0	6[c]
5.0	1
Total	43[b]

a. Includes North Dakota @ 2.25.

b. Includes District of Columbia.

c. Includes Washington @ 4.2.

Nine states increased rates in 1965 although in two states (California and Colorado) these were temporary increases to repair roads damaged by floods. The rate was increased from 6 cents to 7 cents in Wisconsin in 1966.

TABLE 4

STATE CIGARETTE TAX DISTRIBUTION AS OF JULY, 1966

Rate Per Pack of 20	Number of States
3 cents	2
4 cents	3
5 cents	4
6 cents	3[a]
7 cents	8
8 cents	19
9 cents	1
10 cents	4
11 cents	3
Total	47[b]

a. Includes Arizona @ 6.5 percent.

b. Not included in this total are Hawaii which taxes cigarettes at 40 percent of wholesale and New Hampshire which taxes them at 21 percent of retail value.

Some Changes and Some Discernible Trends

At the center of the state-local tax problem is the steady pressure of rising school costs on the property tax. Nationwide, education is the fastest growing component of overall state and local spending, accounting for nearly 40 percent of the total state and local expenditures. Education has traditionally been a local responsibility and local governments rely almost exclusively on property taxes. The property tax is still the largest single source of combined state and local revenues although its relative importance has declined a little bit in recent years.

As long as public schools, roads, and other services required only modest expenditures, the property tax served reasonably well as the basic source of revenue. With greatly expanded postwar demand for more and better services, local property taxes were increased to the point that the weaknesses of these taxes were revealed and accentuated. Chief among these weaknesses are (a) that property is not evenly distributed among governmental units and (b) that property is not a good overall index of ability to pay.

The new taxes recently adopted by states and the increased rates described in previous sections of this chapter are all a part of efforts of the various states to tap a wider variety of revenue sources. With revenues obtained from these sources, the states are providing increased aid to public schools and taking on more of the load of furnishing other services such as highways, care of the handicapped, and so on.

The gasoline tax, adopted by all 48 states in the 1920's, produces significant revenues, most of which are earmarked or at least used chiefly for highway

purposes. The cigarette tax has been a favorite target for increases in recent years. But the income tax and the retail sales tax are the two to which most states have turned to obtain large amounts of revenues to supplement the property tax.

With respect to the state individual income tax, the states are turning to schedules with heavier rates at the lower end of the income scale.[3]

This is not to say that the rates are not progressive but that they are less progressive than they were. This seems simply to be a recognition of the fact that if large amounts of revenue are needed you have to go where the bulk of the income is.

Eighteen of the 34 states which have individual income taxes start with a rate with two percent or more for the lowest income bracket. Of these, four apply a 2.5 percent to the lowest bracket and five apply a 3 percent rate. See Table 1. Fifteen of the states having income taxes with a beginning rate of 2 percent or more, also have general sales taxes. Several states (Indiana, Maryland, Massachusetts) have imposed flat rate income taxes which are progressive only to the extent that the taxpayer is allowed certain exemptions. The 1965 Nebraska legislature passed a flat rate individual income tax which has been referred to the voters in the coming fall election. The Illinois legislature submitted to the voters (November, 1966) a constitutional amendment which would authorize a flat rate income tax not to exceed 3 percent unless the majority of the voters approved a higher rate. Some states have used the flat tax idea by simply adding (say) 1 percentage point to each bracket of an existing income tax schedule. See, for example, the 1966 change in the Kansas income tax schedule. Wisconsin made the same kind of change in 1962.

The flat rate income tax is something of a cross between a sales tax and the traditional progressive income tax. The flat rate tax is still progressive if the taxpayer is allowed an exemption or deduction before the tax applies. The Indiana tax, for example, allows an exemption of $1,000 for the taxpayer and $500 for the spouse and each additional dependent. The other chief differences between the flat rate income tax and the general sales tax are (1) the rate is proportional throughout whereas the sales tax takes a smaller percentage of income as incomes become larger; (2) the sales tax applies to expenditures from pensions, savings, borrowed money or even welfare payments whereas the income tax applies only to income, and (3) the flat rate income tax would in no way tax tourists or transients who use Montana facilities in passing through.

Thirty-one states now collect income taxes on salaries and wages through withholding. Of states which impose an individual income tax, only California, Mississippi, and North Dakota do not provide for withholding.

A new feature being incorporated into sales tax legislation is the tax credit or rebate which is used as an alternative to exempting certain items, such as food. States which have this feature are Colorado, Hawaii, Indiana and Massachusetts (1966 law). To illustrate, Indiana allows a $6 credit or rebate for each member of the family, which, with 2 percent sales tax, represents an expenditure of $300 per capita. The $6 is allowed as a credit against the state income tax or, in case the taxpayer has no income tax obligation, the $6 per person will be paid to the taxpayer in the form of a rebate.

Several states have recently moved toward applying the general sales tax to such services as rooms and lodging (short term), admissions to places of amusements, laundry and dry cleaning, repair and maintenance, and certain public utilities. On the other hand, states are moving to exempt such farm inputs as feeds, fertilizers, seed and weed sprays. Several states have exempted drugs dispersed under prescription (examples are Colorado and Indiana).

In addition to levying a state sales tax, many states have authorized the use of sales taxes by local units. In 1965, three more states authorized local units to levy sales taxes. New York included this provision in her new 1965 sales tax law and many local units have adopted the tax. Oklahoma and Wyoming added this authorization in 1965 and several cities, including Oklahoma City, have exercised the right. Virginia included this provision in her new 1966 sales tax legislation. In many other states where local sales taxes have previously been authorized, additional cities or counties adopted the tax. In 1965, 24 of Utah's 29 counties had adopted a .5 percent local sales tax. Denver citizens pay the 3 percent state tax and a 2 percent city tax, making a total salestax of 5 percent. Typically, the state collects the combined state and local sales tax and remits the local part to the local taxing unit.

Several trends are discernible in the property tax field, aside from searching for alternative sources of revenue. The first is the tendency to reduce or eliminate state levies on property. To illustrate, Colorado has gradually reduced the state levy on property since 1959. In 1965, there was none. Idaho legislation in 1965 imposed a general sales tax with the provision that there would be no state levies on property as long as the sales tax is in effect. Kansas has not made a levy on property for general operating purposes since 1955. A state levy is used for only state building construction. If the Nebraska flat rate income tax is approved at the November election, it will replace the state property tax levy. Neither Oklahoma, Oregon nor South Dakota has made any state levy on property for many years.

A second tendency is to exempt household goods, personal effects, and intangible property from the property tax. Colorado, for example, recently exempted all three. As of January 4, 1966, household goods are exempt from property taxes in Indiana. A 1964 constitutional amendment in Kansas exempted household goods and personal effects from property taxation. Neither Oregon nor Washington tax household goods and personal effects. Several states tax the income from intangible property in lieu of a property tax levy.

Another property tax area which has received considerable attention in recent legislative sessions is the treatment of goods in transit, so called "free port" laws. One tendency seems to be to include in the exempt class, merchandise processed or manufactured within the state but stored for shipment to a destination outside the state. (See the state reports on Colorado, Iowa, South Dakota, Utah, Washington, and Wyoming in the latter part of this chapter.)

Several states have already passed a real estate transfer stamp tax to replace the federal tax which is to phase out as of January 1, 1968. (See, for example, the reports on Iowa, Minnesota, and Nebraska.)

School Equalization

Although some relief for property tax payers has been achieved by use of local non-property taxes, particularly in the urban or heavily populated areas, the greatest progress has been made through state grants-in-aid to local units, as in the case of schools, or state assumption of much of the responsibility of providing the services, as in the case of the highway system. Much of the tax money used for highways has been obtained for some time from motor fuel and motor vehicle taxes, which are often used as examples of "benefits received" taxes.

State aid to schools serves two important functions--to relieve property taxes and to equalize the benefits and the load of education throughout the various communities. A corollary aim is to improve the overall quality of education. State aid distributed on a flat per pupil basis does something to relieve property taxes, and some state aid formulas distribute at least part of the state school funds on this basis. Such aid may appear not to help if school budgets are increased at a greater rate than the increase in aid. What the budget would have been without the aid is not an easy question to answer.

When state school funds are used for equalization purposes, the allocation formula becomes a matter of great concern. A common pattern is to set a minimum standard. The school district is required to make some minimum effort and then equalization funds are used to meet the minimum standards. Offerings above the minimum standards are left to the district.

There seems to be a trend toward rewarding efforts to improve quality of education by varying the amount of state aid in part on the basis of years of training and experience of teachers. See, for example, the sections on Indiana, Kansas, and Washington.

The problem of determining the local share under an equalization aid program is present in any state where equalization is attempted. Four methods of measurement of local ability-to-pay (or some combination of them) are available. They are as follows:[4]

1. To accept locally assessed property evaluation.
2. Local assessments determined under state supervision.
3. State equalized assessed valuations of local property.
4. Economic indexes of local taxpaying ability.

"State aid programs that rely solely on local assessment valuation do not adjust for inequities in the assessment procedure."[5] The wide variations in assessment levels between counties which has existed more or less in every state is not only accepted but encouraged by use of this measure. It is common knowledge that some school districts (or counties) underassess property in order to qualify for more state school aid, thus thwarting the purpose of the equalization program. From the standpoint of equity between counties a flat per pupil state aid program is superior to this one.

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4. For an excellent treatment of these methods see publication No. 95 of the Minnesota Legislative Research Committee entitled "Minnesota's Equalization Aid Review Committee.

5. Ibid., p. 2.

The second approach is to use the same formula, (requiring a minimum local effort before determining the state contribution) and to try to improve the reliability of assessments by state supervision (to some extent, state control) of the assessment process. Many states have mounted major efforts along this line in recent years. To illustrate, in 1961, the Indiana legislature enacted a law to implement a mandatory state-wide assessment program. Nebraska law requires periodic county reassessment of property (about every 10 years) based on standards established by the State Tax Commission. If the county fails to sign an approved reappraisal contract, the tax commissioner is directed to contract for the reappraisal of the property of the county and to demand payment from the county. Failure to pay will result in whthholding state funds from distribution to the county. In Minnesota, there is a current effort on the part of the State Tax Commission to equalize property assessments among assessment districts. Montana has recently completed an extensive reclassification and revaluation program.

The third approach--state equalized or "adjusted" assessed valuations--is more common than most people realize. As early as 1957-58 some 22 states were using some variant of this approach. Here, the state does not actually correct differences that may exist in local assessment practices. What the state does do is to attempt to measure the deviation of county valuations from some norm (say state average). The common measurement device is the assessment-sales ratio. In distribution of state aid, then, the minimum required contribution of the school district is taken to be not what the district actually raised by the required levy but what the district would have raised had it not followed a practice of under-assessment.

The following are examples. In 1963, the legislature of North Dakota passed a law requiring the state tax commissioner to make a property assessment-sales ratio study and directed that it be made the basis for a determining state aid to public schools, In Indiana "for the purpose of setting the school tax rate, assessed valuation is first adjusted on the basis of a statewide survey to compensate for variations in local assessment levels."[6] Minnesota adjusts local assessments by use of assessment-sales ratios and the differences between what would be raised by applying the standard minimums levy to the "adjusted assessed valuation" and the amount guaranteed by the state equals the amount of state aid. In Kansas the required county school foundation levy is defined as that amount which would be produced by a 10 mill levy on the adjusted valuation of the county for the preceeding year. (Senate Bill No. 281, 1965.)

The new Kansas formula includes also the fourth method of measuring local ability to pay, the economic index. The 1965 act has been described as the "most significant public school measure ever enacted in Kansas" from the financial standpoint.[7] The allocation formula for state school funds is based on a minimum county effort, based on adjusted assessed valuation and a state shared guarantee based on the number of certified employees and their years of training and experience. Injected into the formula is a county economic index (to measure "ability" or "need") based on the adjusted valuation of tangible property and taxable income as reported on state individual income tax returns.

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6. See page 2, "State Support of Public Education in Indiana," Indiana Public Affairs Notes, May-June, 1965, published by the Institute of Public Administration, Indiana University, Bloomington, Indiana.

7. Release from the Research Department of the Kansas Legislative Council, April 22, 1965.

Several other states use economic indexes to measure local ability to support education. These economic indexes are based on such factors as assessed value of property, taxable income, sales taxes paid, motor vehicle taxes paid and number of gainfully employed persons.[8]

Individual State Reports

Colorado.--During the period from 1959 to 1965, the state levy on property has been gradually reduced. There is none in 1965. Other changes have been made recently in the field of property taxation. A constitutional amendment, approved by the voters in the 1962 election, deleted the requirement that all property of the state be assessed at its "full cash value."

In the 1964 Second Regular Session, the general property tax law was completely rewritten. Assessors now establish an actual value giving consideration to such of the following factors as would apply: (a) location and desirability, (b) functional use, (c) current replacement cost, new, less depreciation, (d) comparison with other properties of known or recognized value, (e) market value in the ordinary course of trade, (f) earning or productive capacity. With a few exceptions, valuation for assessment is then set by statute at 30 percent of actual value.

The 1963 legislature repealed the "Realty Recording Act" which has been useful in establishing assessment-sales ratios in the various counties.

In 1965, a Freeport Merchandising Act was passed, defining freeport merchandise[9] and setting the valuation for assessment at 17.5 percent of actual value for 1966 taxes and at 5 percent for 1967 and thereafter.

Household furnishings, including encased household appliances, which are not used for the production income at any time, personal effects, and intangible personal property are now exempt from general property taxation.

In 1964, a state cigarette tax of 3 cents per pack was adopted and in 1965 the rate was increased to 5 cents per pack. In addition to this, 52 municipalities have cigarette taxes ranging from 1 cent to 4 cents per pack.

In 1965, the state general sales tax was increased from 2 percent to 3 percent. In addition, 15 "home rule" cities levy sales taxes. Denver residents, for example, pay a 3 percent state sales tax and a 2 percent city sales tax. The state tax was imposed on sales of fermented malt beverages and on malt, vinous and spiritous liquors. A credit or refund of food sales taxes was allowed, equal to $7 per person, to be recovered by resident individuals as a credit against their income taxes or as a direct refund to persons not having taxable income.

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8. For an analysis of these indexes see Publication No. 95 of the Minnesota Legislative Research Committee, December 1962.

9. Stocks of merchandise held in storage in transit through the state, which have acquired a taxable situs in the state, and merchandise manufactured or produced in the state and stored for shipment to a destination outside the state.

A constitutional amendment approved by the voters in the 1962 election allows the legislature to define income upon which the state income tax is levied by reference to the laws of the United States, but requires the legislature to establish the rate and does not permit the use of a percentage of the federal tax as the state tax. The federal income tax is not deductible in computing taxable net income. Present income tax rates are as follows:

Not over $1,000	3 percent	$6,000 to 7,000	6 percent
$1,000 to $2,000	3.5	$7,000 to 8,000	6.5
$2,000 to 3,000	4.0	$8,000 to 9,000	7.0
$3,000 to 4,000	4.5	$9,000 to 10,000	7.5
$4,000 to 5,000	5.0	$10,000 and over	8.0
$5,000 to 6,000			

Starting August 1, 1965, the Colorado gasoline tax was increased from 6 cents to 7 cents per gallon for a 13 month period. The additional 1 cent tax is to be used to repair roads and bridges damaged during the summer floods.

Colorado has a school foundation and equalization program. State funds provide about 25 percent of the funds for most school budgets. Equal weight is given to adjusted assessed valuation and to adjusted gross income in the formula for allocation of state funds to the school districts.

Idaho.--In 1965, Idaho took definite steps toward reducing her dependence on property by the introduction of a three percent sales tax on a base which includes food purchases. As long as the retail sales tax is in effect no state levies will be imposed on property, excepting about $1 million building bond indebtedness yet to be retired.

Legislation was passed in 1965 to require uniformity and equalization with respect to the assessed valuation of property within counties and among counties. The legislature divided taxable property into three classes, each to be assessed after December 31, 1965, at a percentage of full cash value as follows: (a) real property to be assessed at 20 percent, (b) personal property to be assessed at 20 percent, and (c) operating property to be assessed at 40 percent.

Operating property is defined to include all franchises, rights-of-way, roadbeds, tracks, pipe lines, terminals, rolling stock, equipment, power stations, power sites, lands, reservoirs, generating plants and substations, all immovable or movable property operated in connection with any public utility or car company.

The State Tax Commissioner is required to prepare and distribute to County Commissioners and County Assessors rules and regulations prescribing and directing the manner in which full cash value is to be determined. Such rules and regulations shall include the following criteria for determining value to the extent that the same are applicable: (1) earning capacity; (2) relative location; (3) desirability and functional use; (4) reproduction cost less depreciation; (5) comparison with other like properties of known or recognized value; and (6) market value in the ordinary course of trade.

Goods in transit, fruits and vegetables (held for human consumption) and seeds shipped out of the state, and personal property manufactured or processed in Idaho and actually sold and shipped out of state, are exempt from property taxes. Facilities, installations, machinery or equipment used in the elimination, control or prevention of water or air pollution also are exempt from property taxes.

Individual income tax and corporation income tax rates were increased both in 1959 and 1963. However, in 1965 the corporation income tax rate was reduced from 10.5 percent to 6 percent and federal income taxes (paid) removed as a deduction in computing the state income tax. Effective January 1, 1965, the individual income tax rates were lowered from a range of 3.4 to 10.5 percent to a range of 2.5 to 9 percent as follows:

Taxable Income	Tax Rate
First $1,000	2.5 percent
Next 1,000	5.0 percent
Next 1,000	6.0 percent
Next 1,000	7.0 percent
Next 1,000	8.0 percent
Over 5,000	9.0 percent

In 1961, the cigarette tax was increased from 5 cents to 6 cents per pack and in 1963 the rate was increased from 6 cents to 7 cents per pack. The alcoholic beverage tax is $4.65 per 31 gallon bbl., sold for use in the state.

The gasoline tax is 6 cents per gallon.

Indiana.[10]--Up until 1963, Indiana received the bulk of her state and local tax revenues from two sources, the general property tax and a general "transactions" or "gross receipts" tax. In 1960, about 80 percent of state general fund receipts were obtained from the gross receipts tax.

The gross receipts tax applied to:

(a) Receipts from the sale of all goods, processed and unprocessed, at all stages of production and distribution;

(b) Proceeds from the sale of real estate and tangible and intangible personal property;

(c) Receipts for personal services (wages, salaries, fees, commissions, bonuses) and interest, dividends, and rents.

In general, since 1957, a rate of $1\frac{1}{2}$ percent applied to wages, salaries and other personal-service-type receipts, to interest and property income, and to the sale of real estate and intangible property. Other sales (transactions) were taxed at a rate of 3/8 of 1 percent.

Faced with the need to provide for additional revenue, Indiana was forced to examine her tax system. There are basic deficiencies involved in a gross receipts tax which were tolerable only because of low rates. In 1961, the legislature enacted a property assessment law to implement a mandatory state-wide

10. This writeup of the Indiana tax system draws heavily from an article by D. James Papke, Purdue University (entitled "Indiana Tax Policy: Revision, Reform, Reconstruction," National Tax Journal, Juen 1964, Vol. XVII, No. 2) and information provided by Mrs. Carlyn E. Johnson, Research Director, Commission on State Tax and Financing Policy.

property reassessment program and directed the commission on State Tax and Financing Policy to conduct a study of the incidence, probable effects and revenue capabilities of various kinds of taxes.

In 1963, the "general transactions" or "gross receipts" tax was replaced by a new system. The new components of the system adopted include (a) a 2 percent flat rate personal income tax with the taxable income defined as adjusted gross income for federal income tax purposes less personal exemption of $1,000 for the taxpayer and $500 for the spouse and each dependent. (No deductions for non-business expenditures.) (b) A 2 percent flat-rate corporation net income tax as a minimum alternative to the gross receipts tax and (c) a 2 percent retail sales tax, including receipts of public utilities and receipts from the rental to transients of hotel rooms and other lodging. In lieu of a direct exemption of food from the sales tax, a $6 credit or rebate for each person of the family is permitted as a deduction from the personal income tax. The $6 credit is compensation for sales tax paid on a $300 expenditure per capita.

The gross receipts tax on individuals and unincorporated businesses was repealed. The gross receipts tax rates applying to corporations was increased by one third (to 1/2 of 1 percent or 2 percent, depending on the source of receipts) but gross receipts taxes paid (up to the full amount of the corporation net income tax) are allowed as a credit against the corporate income tax liability. To put it another way, corporations pay 2 percent of taxable income apportioned to Indiana or the gross receipts tax, whichever is greater. In practice, the net income tax is paid largely by corporations which derive a substantial portion of their receipts from sales made out-of-state, since receipts from interstate commerce are exempt from the gross receipts tax.

In addition to the changes listed above, the cigarette tax was increased from 3 cents to 4 cents per pack in 1963 and increased again from 4 cents to 6 cents in 1965. Gasoline is taxed at 6 cents per gallon. In 1965, the sales tax base was extended to include the renting and leasing of tangible personal property and to the occasional sale of motor vehicles but the legislation exempted drugs and other enumerated items dispensed by pharmacists and physicians.

By and large, Indiana has turned the property tax over to local governments as a source of revenue. The entire state levy on property produces less than $700,000 a year in revenue. As of January 1, 1966, household goods are exempt from property taxes. Indiana does not have a homestead exemption law but up to a $1,000 deduction from assessed value is allowed if the property is mortgaged. Intangible property is exempt from the property tax but is subject to a so-called excise tax at the rate of 1/4 of 1 percent. Goods in transit stored in a public or private warehouse are exempt from property taxes but only to the extent they would be exempt under the Commerce Clause of the U.S. Constitution.

Indiana has a state financed school "foundation" program. The allocation formula is based on such factors as wealth of the local community, number of teaching units, training and experience of teachers, and the degree to which the ratio of assessed value to actual value in the local community varies from the state average.

Iowa.--Iowa has a homestead exemption which gives credit against the property tax on each elegible homestead. The amount of the credit is to be in the same proportion that the assessed valuation of each eligible homestead of the state bears to the total assessed valuation of all eligible homesteads in the

state, with $2,500 as the maximum valuation of any homestead for this purpose. An exemption of $300 is provided for household furnishings.

In 1963, an act was passed, effective July 4, 1963, which exempts from the property tax all personal property "in transit" which is moving in interstate commerce through or over the state or which is consigned to a private warehouse within the state from outside the state for storage in transit to a final destination outside the state.

An act in 1959 provided for the exemption of all personal property intended for ultimate sale or resale, with or without additional processing, manufacturing, fabricating, compounding or servicing, stored in a warehouse by any person, copartnership, or corporation engaged in the business of storing goods for profit, provided the property is not sold or offered for sale by the owner at retail directly from the public warehouse.

State aid to local schools is provided in the form of a credit against the tax levied on agricultural land within school districts for the general school fund in excess of 15 mills. Funds are appropriated from the state general fund. This credit has been only partially paid in the past.

Iowa has one of the lower state personal income tax rate schedules in the U.S. Beginning in 1957 the rate schedule has been as follows:

Taxable Income	Tax Rate Since 1955
First $1,000	.75 percent
Next $1,000	1.5 percent
Next $1,000	2.25 percent
Next $1,000	3.0 percent
From $4,000 to $9,000	3.75 percent
Over $9,000	4.5 percent

In 1965 the legislature added a tax of 3/4 of 1 percent on taxable income above $9,000. This added tax replaces 5 mills of the 6 mill levy on monies and credits. The 1 mill levy on monies and credits imposed for the Korean War bonus to veterans was retained. The legislature also provided for income tax withholding beginning January 1, 1966.

The corporation net income tax rate was increased from 3 percent to 4 percent on income earned during tax years beginning in 1965. State inheritance tax rates were increased also.

In 1953 the cigarette tax was raised from 2 cents to 3 cents per pack and in 1955 the legislature repealed the exemption of cigarettes (and beer) sold at retail from the retail sales tax. In 1959 the tax was increased from 3 cents to 4 cents per pack. The tax was increased from 4 cents to 5 cents per pack in 1963 and increased again in 1965 from 5 cents to 8 cents per pack.

There has been no recent change in the Iowa 2 percent retail sales tax rate but the 1965 legislature did extend the sales tax to gross receipts from the renting of any and all rooms, apartments or sleeping quarters in a hotel, motel, inn, public lodging house, rooming house or tourist court, or in any place where sleeping quarters are furnished to transient guests for rent.

In 1965 the tax on gasoline and liquified petroleum gas was increased from 6 cents to 7 cents per gallon and the tax on diesel fuel from 7 cents to 8 cents per gallon.

A documentary stamp tax at the rate of $1.10 per $1,000 of consideration was imposed on deeds, instruments or writings, by which land, tenements, or other realty is granted, assigned, transferred or otherwise conveyed. This tax was designed to replace precisely the federal tax which was repealed effective January 1, 1968, at which time the Iowa tax will become effective.

Kansas.--An important emphasis in Kansas in recent years has been on finding revenue sources other than property taxes for both state and local purposes. The state has not made a property tax levy for general operating purposes since 1955. At present, the state imposes tangible property taxes only for building construction at institutions of higher education and at state hospitals and charitable institutions. Revenues from several state-imposed taxes have been shared with local governmental units and a School Foundation Program Bill was passed in 1965 (see description below).

In 1963, a law was enacted requiring that all real and tangible personal property shall be assessed at 30 percent of "justifiable" value. Another 1963 law disallowed exemption of property owned by governmental units but leased to private firms for commercial purposes, and a third 1963 law imposed a privilege (income) tax on banks and savings and loan associations in lieu of the intangible property tax.

In 1964 constitutional amendment exempted household goods and personal effects from property taxation and repealed a $200 personal property tax exemption.

The retail sales tax (originally 2 percent) was increased to 2.5 percent in 1958 and to 3 percent in 1965. The tax was extended to hotel and motel rentals in 1957 and to cigarettes and cereal malt beverages in 1961.

The 1965 legislature established a withholding and declaration system for collection of the state individual income tax and raised the rates of both the individual and corporate income taxes. The corporate tax rate was increased from 3.5 percent to 4.5 percent and the individual tax rate was increased as shown in the table on the top of page 17.

The cigarette tax was increased to 4 cents per pack in 1957, to 6 cents in 1964, and to 8 cents in 1965. The tax on sale of liquor at retail was increased from 2.5 percent to 4 percent in 1965 (Kansas has also a gallonage tax both on cereal malt-beverages and on liquor).

The motor vehicle registration tax on trucks in the heavier weight brackets was increased in 1965.

Two school programs which will have a major impact on state and local finances in Kansas have been recently initiated. The first is the school unification program. The first Unification Act, passed in 1963, declares as its purposes the general improvement of the public schools in the state of Kansas and the equalization of the benefits and burdens of education throughout the various communities in the state. One result of this program has been phenomenal. The number of operating school districts (elementary and high school)

Taxable Income of Individuals	Tax Rate 1933 law	Tax Rate 1957 law	Tax Rate 1958 law	Tax Rate 1965 law
First $2,000	1.0%	1.0%	1.5%	2.5%
2,000 - 3,000	2.0%	2.0%	2.5%	3.5%
3,000 - 5,000	2.5%	2.5%	3.0%	4.0%
5,000 - 7,000	3.0%	3.5%	4.0%	5.0%
over 7,000	4.0%	5.0%	5.5%	6.5%
Corporate Tax	2.0%	3.0%	3.5%	4.5%

in the state has decreased from 1,657 in 1963 to 1,304 in September, 1965, and will further decrease to about 400 districts by September, 1966.

The school foundation programs will provide an increase of about $36 million in state school funds over the three state aid laws which were repealed. The new program will provide $79.2 million from the state general fund for the 1965-66 school year, with $83.6 million appropriated for 1966-67. All state funds paid to school districts will amount to approximately 40 percent of estimated public school operating costs for the 1965-66 school year. Three features of the Kansas school foundation program are worthy of note. (a) It provides for a single county-wide levy of 10 mills (for both elementary and high schools) with locally assessed property valuations being adjusted on the basis of an annual assessment sales ratio study. (b) The state shared guarantee is established for each school district based on the number of certified employees and their years of training and experience. (c) Injected into the formula for state sharing is a county economic index (to measure "ability" or "need") which is based on each county's percentage of the state total adjusted valuation of tangible property and taxable income as reported on state individual income tax returns.

Minnesota.--Minnesota makes a substantial levy on property for state purposes (amounting to $32 million in 1964, or about 6.5 percent of state tax revenues). The state levy against property varies from year to year. The current levy (1966) is 18 mills but this does not apply to the three largest cities. These three cities are under separate teachers' retirement programs and a levy on property is not made in them for the state teachers retirement funds as in the rest of the state.

The 1959 legislature granted authority to counties to discontinue the personal property tax on household goods. Currently 39 counties exempt household goods. There is a current effort on the part of the State Tax Commission to equalize property assessments among assessment districts.

On November 3, 1964, a constitutional amendment was adopted limiting for a period of 25 years the relative burden of the taconite and semitaconite occupation, royalty, excise taxes. This amendment was designed to encourage the development of the taconite industry.

The most important single source of state tax revenue is the individual income tax (with withholding) and corporation net income tax (with pay-as-you-go system), amounting to 40 percent of the total in 1964. The present corporation net income rate is 10.23 percent on taxable income. The individual net income rates as imposed in 1965 are as follows:

Taxable Income	Tax Rate
First	
First $ 500	1.5 percent
Next 500	2.0 percent
Next 1,000	3.0 percent
Next 1,000	5.0 percent
Next 1,000	6.0 percent
Next 1,000	7.0 percent
Next 2,000	8.0 percent
Next 2,000	9.0 percent
Next 3,500	10.0 percent
12,500-20,000	11.0 percent
Over 20,000	12.0 percent

The cigarette tax was increased from 4 cents to 5.5 cents per pack in 1959, raised to 7 cents per pack in 1961 and to 8 cents per pack in 1963. Other tobacco products are taxes at 10 percent of wholesale price. In 1959, the tax on malt beverages was increased from $1 to $1.60 on 31 gallon bbl. (up to 3.2 percent alcohol) and from $2 to $3.20 per 31 gal. bbl. (more than 3.2 percent alcohol). The tax on intoxicating liquors is $2.50 per gallon plus a 15 percent surtax.

The motor fuels tax was changed from 5 cents to 6 cents per gallon in 1963.

Minnesota has passed a real estate transfer tax of $1.10 per $1,000 or less consideration plus 55 cents for each additional $500.

No general retail sales tax is levied.

In Minnesota, the state income tax is earmarked for aid to schools. State funds provide for about 40 percent of total public school expenditure. An important purpose of the Minnesota school aid effort in recent years is to equalize educational opportunities throughout the state by providing aid based on local ability to pay.

The formula is relatively simple. State aid is a given amount per pupil in average daily attendance ($285 in 1962-63) less an amount equal to the uniform levy on adjusted assessed valuation of property in the district. Adjustments in locally assessed values are based on assessment--sales ratio studies made by Minnesota's Equalization Aid Review Committee.

Nebraska.--Nebraska has no state school foundation or state school equalization program. Elementary school and high schools are financed almost entirely from property taxes. Moreover, in 1964 30 percent of state tax funds were obtained from property levies.[11] In 1965 the Nebraska legislature passed a flat-rate net income tax on individuals and corporations to begin January 1, 1967. The tax rate, sufficiently high to replace the state property levy, is to be set by the State Board of Equalization and Assessment each year on or before

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11. No other states came near to obtaining so large a part of state tax funds from property. Wyoming (with 18.4 percent), Arizona (with 16 percent) and Montana (with 8.5 percent) ranked 2nd, 3rd, and 4th in the nation in this respect.

September 1.[12] The state property tax levy was eliminated contingent upon a general income tax, general sales and use tax, or a combination income or sales and use tax becoming operative.

In 1957, the legislature required that all tangible personal property and real property shall be assessed at 35 percent of actual value instead of 50 percent of basic value. However, 35 percent of actual value and 50 percent of basic value have been construed to be identical. In 1961 the legislature stipulated that personal property in transit intended for shipping to a final destination outside the state need not be listed for property tax purposes if stored in bonded and licensed warehouses while being held for shipment to final destinations. A 1963 law provides for reappraisal of all lands and improvements every 10 years in some counties and at intervals of not less than 6 years not more than 16 years in all other counties. In 1965 the $200 household goods and personal effects exemption per family was eliminated.

Nebraska does not impose a general retail sales tax.

The state gasoline tax was increased from 5 cents to 6 cents per gallon in 1953, from 6 cents to 7 cents in 1957, and from 7 cents to 7.5 cents per gallon in 1965. The state cigarette tax was increased from 3 cents to 4 cents per pack in 1959, from 4 cents to 6 cents per pack in 1963, and from 6 cents to 8 cents per pack in 1965.

A new severance tax (or excise tax) of 2 percent of the value (at the well) of oil and gas produced was passed in 1955 and was yielding revenue by 1957. A new pari-mutual tax of 2 percent of "gross wagering" of any amount in excess of $1 million each race was imposed in 1959 the rate was raised to 3 percent in 1963 and to 4 percent in 1965.

The tax on the manufacture or wholesale distribution of beer was raised from 4 cents to 6 cents per gallon in 1963 and from 6 cents to 8 cents per gallon in 1965. The tax on the manufacture or wholesale distribution of alcohol and spirits was increased in 1963 from $1.20 per gallon to $1.60 per gallon.

The state poll tax was repealed in 1959 although it is still mandatory in cities and permissive in towns. There is still a state head tax of $3.50 on every male and female inhabitant from age 21 to age 60.

The gross premium tax on domestic insurance companies was increased from .4 of 1 percent to .6 of 1 percent in 1963.

In 1965 a Documentary Stamp Tax was imposed on the conveyance of real estate at the rate of 55 cents for each $500 value or fraction thereof, to become operative when the repeal of the stamp tax levied by the federal government becomes effective on January 1, 1968.

North Dakota.--In North Dakota the state general fund levy has a constitutional 4 mill limit. Within this limit, the levy is determined by the

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12. The future of this tax is in doubt at this time because of a petition which has been circulated to have the tax referred to the voters. A second proposal which will be referred to the voters at the fall election is that the state be denied the right to levy taxes on property.

legislature and has remained at 2 mills since 1949. In 1964 the state levied 2 mills on property for the general fund, 1 mill for the medical school at the University of North Dakota at Grand Forks, and .87 of a mill for retirement of the Korean veterans' bonus bonds.

The medical school levy is the result of a constitutional amendment in 1948. This levy can be used only for the medical school. Proceeds are expended for development and maintenance as the legislature directs. The Korean veterans' bonus bonds sinking fund is now adequate to repay the out-standing bonds, so this levy has been discontinued.

In North Dakota all farm improvements are exempt from property taxes (farm residences, farm buildings used for agricultural purposes, fences, wells, irrigation systems, trees, etc.). Intangibles are not assessed under the property tax. The North Dakota "freeport" law permits holding of imported goods for transshipment out of state without incurring property tax liability thereon.

The income tax law does not provide for withholding of income taxes by employers. The federal income tax is allowed as a deduction in computing the state income tax. Individual income tax rates are as follows:

Taxable Income	Rate of Tax
First $3,000	1 percent
$3,001 to 4,000	2 percent
$4,001 to 5,000	3 percent
$5,001 to 6,000	5 percent
$6,001 to $ 8,000	7.5 percent
$8,001 to 15,000	10 percent
Over 15,000	11 percent

Corporation net income tax rates are as follows:

Taxable Income	Tax Rate
First $ 3,000	3 percent
$3,001 to 8,000	4 percent
$8,001 to 15,000	5 percent
Above 15,000	6 percent

State income tax rates and base have not changed for 10 years but a significant change has taken place in the administration of the income tax law and general sales tax law since 1963. Electronic data processing equipment is being used for auditing returns and for cross checking state income tax returns with federal returns, resulting in a more positive system of enforcement.

The general sales tax rate was increased from 2 percent to $2\frac{1}{4}$ percent in 1963 and the base broadened to include services to personal property (e.g. laundry and dry cleaning) and to charges by hotels and motels. There is no sales tax exemption for food. The 6 cents per gallon gasoline tax has not changed during the past six years.

The cigarette tax was increased from 6 cents to 7 cents per pack in 1963 and from 7 cents to 8 cents per pack in 1965. Six cents of the tax goes into the state general fund and 2 cents per package is distributed to cities and incorporated villages on the basis of population. The tax on other tobacco products is 10 percent of wholesale price. Taxes on alcoholic beverages have been increased in recent years.

For the 1965-67 biennium $36 million have been appropriated from the state general fund into the school foundation program. The 1963 legislature passed a law requiring the state tax commissioner to make a property assessment-sales ratio study and directed that it be the basis for determining state aid to public schools.

Oklahoma.--No property tax is levied for state purposes in Oklahoma. Oklahoma relies less heavily on property taxes than the average of the 50 states and considerably less than the seven Northern Great Plains states.[13]

Oklahoma has a homestead exemption law. The first $1,000 of assessed value of real property is exempt from all ad valorem taxes for owners who are living on the property as of the first day of January of the tax year. Ownership or quasi-ownership acquired by a contract for deed (or similar arrangement) permits the owner to apply for homestead exemption if he is occupying the property on January 1.

The first $100 of assessed value of household furnishings is exempt, except that veterans of the armed services get a $300 exemption. Household property is assessed at a low percentage of actual value and some kinds of personal property are seldom assessed (e.g., watches and jewelry).

According to the statutes, the upper limit of assessment is to be 35 percent of the fair cash value.

Besides imposing both a state income tax and a state sales tax, Oklahoma collected $38 million in severance taxes in 1964. Severance taxes amounted to 11.4 percent of the state tax revenue in 1964. Only three other states received as large a proportion of their state revenues from severance taxes, namely, Louisiana (32 percent), Texas (16 percent), and New Mexico (15 percent).

There has been no change in the state income tax in recent years. The individual income tax rates range from 1 percent of the first $1,500 taxable income to 6 percent for taxable income over $7,500. Income tax withholding provisions were enacted in 1961. Corporations pay 6 percent of the net income derived from property owned and business done within the state.

The general sales tax rate is 2 percent. The 1957 legislature exempted feed used for livestock in farm production as well as the value of farm machinery traded in on replacement items. The 1965 legislature exempted agricultural fertilizer from the general sales tax. The 1965 legislature also authorized cities to levy a sales tax upon a favorable vote of the people. Voters in Oklahoma City and four suburbs approved a 1 percent city sales tax to become effective January 1, 1966.

Oklahoma ended liquor prohibition and enacted alcoholic beverage taxes in 1958. Beer is taxed at $10 per bbl., distilled spirits at $2.40 per gallon. Light wine at 36 cents per gallon, wine with more than 14 percent alcohol at 50 cents per gallon, sparkling wine at 75 cents per gallon.

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13. In 1963-64 Oklahoma received only 32 percent of total state and local tax revenue from property taxes. New Mexico received only 23 percent. For all 50 states, 44 percent of state and local tax revenues was received from property taxes. The percentage for Nebraska was 71 percent; for Montana 59 percent; for Kansas and South Dakota, 57 percent; for Wyoming, 55 percent; for North Dakota and Colorado, 50 percent.

In 1965, the cigarette tax was increased from 7 cents to 8 cents per pack and the tax on little cigars was increased from 3.5 mills to 4 mills each (a package of 20 is therefore taxed at the prevailing 8 cents per pack cigarette rate). The tax on cheroots and stogies was increased from $10 per thousand to $20 per thousand (all cigars weighing more than three pounds per thousand).

Gasoline is taxed at 6.58 cents per gallon.

Oklahoma has state aid to schools varying from 10 cents per pupil day for junior high and senior high schools to 7.5 cents per pupil day for elementary grades with a minimum of $175 per teacher year. For school bus transportation the allowance varies from $13 to $54 per pupil year. The formula for determining how much transportation allowance is paid per pupil is rather complicated but rests basically on pupil density and distance traveled.

Oregon.--Oregon relies very heavily on only two sources of tax revenue, the ad valorem property tax at the local level and the personal income tax at the state level. No state derived as large a part of state tax revenue from the personal net income tax in 1964 as the 48.2 percent received by Oregon. New York was second with 41.9 percent. Oregon and New York each obtained 57 percent of state revenue from the combined personal net income tax and corporation net income tax.

Corporations pay 6 percent of net income (financial institutions 8 percent) from business done within the state although manufacturers are permitted to reduce the tax by as much as 1/3 for personal property taxes paid on inventories. The personal income tax rates are as follows:

Taxable Income	Rates	Taxable Income	Rates
1st $500	3 percent	next $2,000	7 percent
2nd $500	4 percent	next $4,000	9 percent
3rd $500	5 percent	over $8,000	9.5 percent
4th $500	6 percent		

No other state has as high a personal income tax rate in the lower taxable income brackets.[14] True, Colorado, Maryland and North Caroline start at 3 percent in the lowest bracket, but Oregon rates reach 6 percent within the first $2,000 taxable income. A few states (Delaware, Minnesota, New York, North Dakota and Wisconsin) exceed the 9.5 percent maximum rate in Oregon, but for considerably higher income brackets in each case.

Oregon has not increased the rate of any of the major state taxes since 1955. The gasoline tax and motor fuel tax rate of 6 cents per gallon produced $44 million in 1963-64, motor vehicle licenses and motor carrier fees $33 million, individual and corporation income taxes $146 million, and all other state taxes and licenses $32.2 million.

There is a modest alcoholic beverage tax. One result of the May, 1966, primary

14. A more precise statement about the relative effects of various state income taxes at the beginning level could be made if variations in personal exemptions and deductions were taken into account. Based on information at hand, however, Oregon exemptions and deductions seem to be in line with those of most other states.

election was voter approval of a 4 cents per pack tax on cigarettes starting July 1, 1966.

Oregon has not levied and collected a property tax for state purposes since 1940. The state does not have a general homestead exemption but does grant some exemptions to veterans and senior citizens who fit into certain disability, income or age classifications.

The definitions of property subject to tax includes only tangible personal property, so intangibles are exempted. Household furnishings, wearing apparel and personal effects are also exempt excepting where they are in commercial use. Counties are generally required to assess property at 25 percent of true cash value.

State grants, aids, offsets and so on have tended to increase throughout the years to help finance specified functions of local governments. (The 1965 legislature for the first time provided property tax relief funds without specifying or designating their use.)

After deducting sums for transportation and growth apportionments, the remainder of the state's principal fund for assisting local school districts is distributed in two ways. Eighty percent is given out in per pupil grants and the remaining 20 percent is used for equalization payments to provide a basic education program. The monies available are used to roll back the highest tax rates so that no district has to levy more than a given number of mills to pay for the balance of the foundation program. Districts which can pay their share of the foundation program, with less than the stipulated millage, do not share in the equalization grants.

South Dakota.--Much legislative effort in South Dakota in recent years appears to have been spent on establishing or changing statutory ceilings on property tax levies for various purposes and on changes in assessment practices. In 1959 the exemption on monies and credits was increased from $5,000 to $15,000 and annuities and royalties were exempted from the 4 mill tax levy on monies and credits. In 1961, provision was made for levying an annual tax on 60 percent of the full and true value of flight property actually providing service in the state and, with certain exceptions, mobile homes were made taxable at the mill rate levied on tangible personal property. A new free port law, effective July 1, 1966, exempts from the property tax tangible personal property held for ultimate sale or resale in interstate commerce and shipped to a final destination outside the state within 12 months of assessment date.

Although there is constitutional authority to do so, South Dakota has not levied property taxes for state purposes for several years. No general individual income tax or corporate income tax is imposed.

Changes were made in the sales and use taxes by the three most recent legislative sessions. In 1963, the law was revised to extend the 2 percent tax to gross receipts from room rentals received by lodging establishments from transient guests. In 1964, single sales of 500 pounds or more of commercial fertilizer used for agricultural purposes were exempted. In 1965, the rate for the sales and use taxes was raised to 3 percent but the additional 1 percent does not apply to the sale of farm machinery. The base was broadened to include the gross receipts of any person in the practice of a profession or a business rendering service. Exemptions were granted to persons engaged in the practice of the "healing arts" and veterinarians.

Also exempted was the sale of seed grains, grass seed and legume seed in 25 pound lots or more for agricultural purposes.

In 1963, the cigarette tax was increased from 5 cents to 6 cents per pack and in 1965 the tax was raised from 6 cents per pack to 8 cents. The gasoline tax rate is 6 cents per gallon.

The state imposes a 10 percent occupational tax on the gross recipts of each distiller, manufacturer or wholesaler of intoxicating liquors except high point beer. In addition, there is an alcoholic beverage tax per gallon or per barrel on distillers, manufacturers and whosesalers of intoxicating liquor, the rates of which were increased in 1963 as follows:

High-point beer: $2 to $8 per barrel
Lightwines (from 3.2 percent to 14 percent alcohol): 15 cents to 25 cents per gallon
Wines (from 14 percent to 20 percent alcohol): 30 cents to 50 cents per gallon
Alcohol in excess of 100 proof: $1 to $2.50 per gallon
Other intoxicating liquors: 75 cents to $1.25 per gallon.

The occupational tax on Classes A and B licenses selling non-intoxicating beer and wine was increased from $2 to $4 per barrel or a pro rata portion in accordance with the size of the bulk container.

Many miscellaneous mill levies, excises, fees and licenses were imposed or increased in recent years. Proportional registration of fleet vehicles was adopted in 1961.

Utah.--General property taxes accounted for 42.5 percent of Utah's total state and local taxes in 1963-64. The general property tax is levied on tangible real and personal property but intangible property, exempt from the property tax, is taxed on the income therefrom. Since 1958, household furnishings, furniture and equipment used by the owner in making a home for himself and family are exempted from all property taxation. In 1965, the legislature adopted a new exemption for goods in transit; goods, wares and merchandise manufactured or processed by firms in the state and subsequently shipped to a final destination outside the state.

Taxes on property accounted for $11 million (8.1 percent) of state tax revenues in 1963-64. Monies realized from the state wide levy are specifically earmarked for the Uniform School Fund. The most important source of state tax revenue was the sales tax ($47.7 million or 35 percent) followed by the gasoline tax ($23.2 million) and the personal income tax ($20 million).[15]

The state raised its retail sales and use tax rates from 2 percent to 2.5 percent in 1961 and from 2.5 percent to 3 percent in 1963. Utah also permits counties or municipalities to adopt local retail sales and use taxes. In 1965, 24 of Utah's 29 counties had adopted this tax. One county had repealed its ordinance (Iron County) but some municipalities in that county had retained the tax. Local sales and use taxes are imposed at the rate of .5 percent and are in addition to the 3 percent state tax. The state tax commission collects the combined 3.5 percent tax and remits the local part to the local taxing unit.

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15. State Tax Handbook, Commerce Clearing House, Inc., September 15, 1965, pp. 615-617.

Corporation income tax rates were increased from 4 to 6 percent effective January 1, 1965, and the personal income tax from a range of from 1 to 5 percent to a range of from 2 to 6.5 percent as follows:

Taxable Income	Tax Rate
First $1,000	2 percent
Next 1,000	3 percent
Next 1,000	4 percent
Next 1,000	5 percent
Next 1,000	6 percent
Over 5,000	6.5 percent

The cigarette tax was increased from 4 cents to 8 cents per pack in 1963. All other tobacco products are taxed at 25 percent of the manufacturer's sales price. In 1965, the tax on wine and distilled spirits was increased from 4 percent to 8 percent of retail sales. Malt beverages of less than 3.2 percent alcohol are taxed at $1.10 per bbl., more than 3.2 percent alcohol at $4 per bbl.

The gasoline tax is 6 cents per gallon.

Utah has a Uniform School Fund which provides for a minimum basic and supplemental school program. To be eligible for state funds for the basic school program, a school district must levy locally 16 mills. Certain taxes and other dedicated revenues go into the Uniform School Fund, such as all state income taxes, practically all corporation franchise taxes, and certain State Land Board revenues. Substantial amounts are also appropriated by the legislature to the Uniform School Fund from the State General Fund. Additional monies required to balance the distribution from Uniform School Fund are raised by a state-wide levy on all tangible property in the state.

Washington.--Washington has neither a state personal net income tax nor a state corporation net income tax. The general property tax ($270 million in 1963-64) and the retail sales tax ($249 million) are the principal sources of all state and local tax revenues. Together these two sources accounted for 63 percent of all state and local taxes in 1963-64. The other important taxes were the gasoline tax ($80 million) business and occupation tax ($72 million), the motor vehicles excise and motor carrier taxes ($59 million) the cigarette and tobacco tax ($21 million) and the public utilities tax ($21 million).[16]

The property tax is used almost entirely for the support of local taxing units. A two-mill state levy on property is applied directly to the state's public assistance program. A portion of the state gasoline tax and a portion of liquor taxes is distributed locally. The law requires assessment of property at 50 percent of "true and fair" cash value which in practice amounts to about 15 to 30 percent or an average of about 20 percent.

Washington does not have a tax on intangible property. Household goods and personal effects are exempt from the personal property tax. A homestead exemption for the head of the family to the extent of $300 is in effect but this exemption does not apply to any private motor vehicle. Goods in transit through the state

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16. See State Tax Handbook, Commerce Clearing House, Inc., September 15, 1965, pp. 626-629.

are exempt from the personal property tax if the ultimate destination is out-of-state. Ore or metals brought into the state for smelting, and metals refined by electrolytic process are also exempt, as are agricultural and horticultural products.

In 1961, the general retail sales tax rate was increased from 3.5 percent to 4 percent. In 1965, the rate was raised from 4 percent to 4.2 percent, effective June 1, 1965. The sales tax on package sales of spirits and strong beer to Class H licensees, and a sale of domestic wines, is 10 percent plus 2 cents per fluid oz. or fraction thereof; 15 percent on all other package sales of spirits, out-of-state wines and strong beer.

In addition, there is an excise on beer of $1 per 31 gallon barrel ($1.50 per bbl. for bottled and canned beer) and 10 cents per gallon of wines sold at wholesale.

The cigarette tax was increased from 6 cents to 7 cents per pack in 1961 and was increased again in 1965 from 7 cents per pack to 11 cents per pack. The tax on other tobacco products was increased from 25 percent ot 30 percent of wholesale price of such products sold, used, consumed, handled or distributed in the state, effective June 1, 1965.

The motor fuel tax was increased from $6\frac{1}{2}$ cents per gallon to $7\frac{1}{2}$ cents per gallong in 1961.

A business and occupation tax levied on the privilege of engaging in business applies to all types of business activities. It is based on values of products, gross proceeds of sales, or gross income of the business as the case may be. The standard rate is .44 percent but special rates range from .01 percent (wholesale of grains) to 1 percent (for service types of business). The tax on the operation of certain mechanical devices (pinball and slot machines) is 20 percent of gross income where the element of skill is involved in determining pay-out to the player and 40 percent where only the element of chance determines pay-out.

The public utility tax ranges from $\frac{1}{4}$ of 1 percent to 3 percent of total gross income of all public service business, according to the type of business, plus a 20 percent surtax. The insurance premiums tax is 1 percent of gross premiums on domestic policies for most kinds of insurance (2 percent on foreign policies) and 3/4 of 1 percent on marine and foreign trade insurance.

During the 1963-65 biennium 47 percent of the state's General Fund expenditures went to local school districts in the form of state grants. The allocation formula takes into consideration such factors as staff experience and professional preparation, enrollment and wealth (tax base) of the local community. After January 1, 1967, a penalty clause goes into effect for districts in counties with assessed valuations not adjusted to 25 percent of true and fair value.

Wyoming.--The most controversial development in property taxation over the last decade was the abolition by the 1955 Legislature of the $500 homestead exemption. In addition, a limitation of $800 was placed upon the amount of taxes a veteran could save by taking advantage of the $2,000 veterans property tax exemption. Nearly as controversial was an order issued in 1965 by the State Board of Equalization, the purpose of which was to enforce the merchandise inventory tax already in existence. The 1965 order declared that merchandise should be assessed for the year 1966 at 30 percent of the average inventory value at cost F.O.B. point of assessment.

The state mill levy for general fund purposes was reduced to one mill for 1958 and has remained at that level since then, although a statutory ceiling of four mills exists.

The 1965 Wyoming Legislature liberalized the in-transit property tax exemption. Prior to that time, only merchandise consigned from outside the state had been exempt. The 1965 Act exempted property consigned either from within or without the state, and deleted a provision of the Wyoming Intrasit Property Tax Exemption which had specified that the exemption did not apply to property remaining in the state more than nine months. The Act also defines personal property in transit as including goods, wares, seed, feed, fertilizer, tools, supplies, and merchandise.

The Wyoming cigarette tax, which was levied on consumers at 2 cents per package in 1951, was increased to 3 cents in 1957 and to 4 cents in 1961. A tax of 4 cents per package is levied on the wholesaler also.

The present 5 cents per gallon rate on gasoline has remained constant since it was enacted in 1951.

The 1965 Wyoming Legislature increased the state sales tax from 2 percent to $2\frac{1}{2}$ percent effective July 1, 1965. The tax base was also broadened to include lodging. Counties were also authorized to levy an optional sales tax of $\frac{1}{2}$ of 1 percent for general revenue, if authorized by a majority of those voting in a special election in the county. Incorporated cities or towns were also authorized to impose an optional $\frac{1}{2}$ percent sales tax if the county in which the city or town is located has not already imposed the tax. The use tax was increased from 2 percent to $2\frac{1}{2}$ percent simultaneously with the increase in state sales tax.

The 1963 Wyoming Legislature raised the tax on malt liquor from 2 cents to 6 cents per gallon, butthis increase was later declared unconstitutional because the title of the statute did not include all the provisions of the statute. Refunds were instructed by the court to be made.

Other Individual State Reports

Arizona.--Arizona ranked third in the nation in the percentage of state tax funds received from the property tax (16 percent). In this Arizona was exceeded only by Nebraska (30 percent) and Wyoming (18.4 percent). Montana ranked number 4 (8.5 percent) and Utah number 5 (8.2 percent).

The most important source of state revenue is the combined occupation tax (gross income on numerous kinds of businesses) retail sales tax and use tax, which combination yielded $84.8 million in 1964. In descending order was the gasoline and fuel tax ($38.1 million), the property tax ($35.1 million) and the corporation and individual income taxes ($23.1 million).[17]

In 1962 taxes were raised on alcoholic beverages, in 1963 the motor fuel tax was increased from 5 cents to 6 cents per gallon and in 1965 the tax on motor fuel was increased from 6 cents to 7 cents per gallon.

In 1965 the tax on sales by restaurants was raised from 1.5 percent to 3 percent, which is the general sales and use tax rate. The tax on cigarettes also was increased in 1965 from 2 cents per pack to 6.5 percent per pack.

Also in 1965, the corporation income tax and individual income tax were increased about 30 percent to a range of 1.3 percent to 6.6 percent for the corporation tax and a range of 1.3 percent to 5.9 percent for the individual income tax.

Montana.--Montana ranks number four in the nation in the percentage of state tax revenue received from the property tax. The major part of the state property tax is a 6 mill levy to finance the university system. This levy yields over $4 million per year. The University levy must be referred to the voters every ten years. It was last approved by the voters in the election of 1958. If this levy were to be continued it would have to be referred to the voters again in 1968.

Probably the most important tax reform in Montana in recent years was the reclassification by counties of all taxable land and the appraisal of taxable city and town lots and all taxable rural and urban improvements for tax assessment purposes. The reclassification and appraisal was completed with some exceptions, during the 5-year period from 1957 to 1962. County assessors are required by law to base their assessments on the new classification and appraisal.

The reclassification and reappraisal program was necessary in part because of the allocation formula for the Montana school foundation and equalization program. In brief the program follows a common pattern. A minimum "foundation" school program is established. The districts and counties are required to make a uniform financial effort in terms of a basic levy on property and state funds are used to make up the difference between the district-county effort and the amount needed to meet the "foundation" level. As in many other states, this formula encouraged local counties and school districts to underassess property.

In 1963 the legislature replaced the former 5 mill district and 10 mill county levies (for elementary schools) with a 25 mill county levy. This distributes school costs more equitably over all property valuation within the county.

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17. Commerce Clearing House, "State Tax Handbook, September 15, 1965" pp. 469-471.

County funds and state funds are allocated to school districts on the basis of "average number of pupils belonging." The basic county levy for high schools is 15 mills.

Individual income tax rates were raised in 1957 to a range of 1 percent to 5 percent and again in 1959 to a range of 1 percent to 7 percent. In 1965 the rates were increased for 2 years to a range of 1.1 percent to 7.9 percent. The corporation income (license) tax rate was raised from 3 percent to 5 percent in 1957. In 1959 the rate was dropped from 5 percent to 4.5 percent but the federal corporation income tax was eliminated as a deduction. In 1965 the rate was increased for 2 years from 4.5 percent to 5.25 percent.

The cigarette tax was increased from 4 cents to 8 cents per pack in 1957. Three cents of this tax is earmarked for retiring veterans' bonus bonds. In the general election in the fall of 1966, voters will consider the question of retaining this 3 cent part of the cigarette tax now scheduled to expire, for the purpose of constructing state buildings.

Two minor changes in 1965 were the elimination of the general road tax of $2 per annum on each male person from 21 to 50 years of age, and the exemption from property taxes of organizations owning and operating facilities for the care of the retired or aged, or chronically ill, which are not operated for gain or profit.

Nevada.--Nevada relies heavily on the general sales and use tax which yielded $21.2 million or 29.8 percent of total state tax revenue in 1964. Parimutuel and gambling taxes yielded $15.4 million (21.5 percent), gasoline and fuel tax yielded $13.9 million (19.5 percent) and the cigarette tax $5.1 million (7.2 percent). The state levied only $2.5 million tax on property. Nevada obtains a greater part of local revenues from other-than-property-tax sources than do most states.

In 1963 the legislature substituted 35 percent of full cash value (as a basis for assessment of property tax purposes) for the previous full cash value requirement. Also in 1963 the personal property tax on motor vehicles was replaced by an annual privilege tax of 4 cents on each $1 of valuation.

In 1965 the legislature repealed (deleted) the statutory provision allowing the assessment of agricultural land at its full cash value for agricultural purposes even though it might have a higher potential value for other purposes. The legislature also enumerated the factors to be considered in determining full cash value for property tax purposes. They are as follows:

1. Price of building to present owner plus improvements made by him minus depreciation.

2. Market value of the property.

3. The replacement cost of any building or improvement less a reasonable depreciation allowance.

4. The value of the property derived from the capitalization of the income which could reasonably be expected from the rental value of the property.

5. The value of the property for the use to which it is actually put.

In 1961 the cigarette tax was increased from 3 cents per pack to 7 cents per pack.

The Nevada motor vehicle fuel tax is 6 cents per gallon. Effective April 13, 1965, counties were allowed to impose a 1-cent-per-gallon motor vehicle fuel tax. In their ordinance adopting the tax the counties are required to adopt the state motor vehicle fuel tax law and to contract with the Nevada Tax Commission to administer the tax.

New Mexico.--Only 22.8 percent of New Mexico's total state and local tax revenues are obtained from property taxes. Only Hawaii, Alabama, Delaware and Louisiana receive a smaller percentage of state and local tax revenues from this source.

The most important source of state tax revenue is the "gross income" or "occupational" tax which includes the 3 percent general sales tax as well as gross receipts taxes on certain types of businesses. The revenue from this source amounted to $57.7 million in 1964. This amounted to 33.7 percent of all state tax revenues and exceeded the total state and local collections from property taxes. Other important revenue sources were the gasoline tax ($27.9 million) the severance tax ($26.2 million), the motor vehicle registration and motor carrier group ($15.8 million), and the individual and corporation net income tax ($14.3 million).[18]

In 1963 the general sales tax rate was increased from 2 percent to 3 percent, including gross receipts from amusement enterprises. There has been a tendency to broaden the sales tax base in recent years to include, for example, sale of agricultural implements, stockbrokers services, and sale of water for consumer purposes.

The corporation income tax rate is 3 percent. Individual incomes are taxed according to the following schedule:

First 10,000 taxable income	1.5 percent
Next 10,000 taxable income	3.0 percent
Next 80,000 taxable income	4.5 percent
Excess of 100,000 taxable income	6.0 percent

Both the corporation and individual income tax rates were increased in 1961. An amendment to the income tax law in 1961 requires that every employer who must withhold federal income taxes from wages paid to employees must also withhold state income taxes.

In 1961 the tax on cigarettes was increased from 5 cents per pack to 8 cents per pack. The gasoline and special fuel tax has remained at 6 cents per gallon since 1951. Taxes on beer, wine, and spiritous liquors were increased in 1963.

Legislation in 1966 created a $1 million special appraisal fund for the purpose of securing a reappraisal of property for assessment purposes. Reappraisal will be done by contract on a county-by-county basis. When completed by any county, the reappraisal value must be used for purposes of assessment. When the reappraised values have been placed on the rolls, school districts in the county are eligible for 1.7 mills on the dollar of total assessed value in the county, to be distributed among the school districts on the basis of weighted average daily attendance.

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18. Commerce Clearing House, Inc., "State Tax Handbook, September 15, 1965," pp. 565-567.

Another act provides a "local incentive distribution" in the amount of $1 million to school districts in those counties which have signed approved reappraisal contracts by July 1, 1966. The same act provides state school funds to be distributed on the basis of average daily attendance and on the education and experience of teachers. An amount of $17.50 is provided for each pupil who completes an approved driver education course.

Texas.--Texas stands almost exactly at the average for all states in its dependence on property taxes for total state and local tax revenues (Texas 44.7 percent, all states 44.4 percent). The state constitution prohibits any state ad valorem (property) tax levy for general revenue purposes. The state did obtain 3.9 percent of its tax revenue in 1964 from property taxes for specific purposes such as schools and institutions for the infirm or the insane. Texas has a homestead exemption on assessed value up to $3,000 or 200 acres. All personal residences are exempt regardless of value. Household goods and personal effects are exempt from state property levies but some school districts levy on this classification of property.

The "sales and gross receipts" classification provides the lion's share of Texas state tax revenues. This includes the gasoline and fuel tax which yielded $218.3 million in 1964 (19.5 percent of all state tax revenue), the general sales and use tax ($204.7 million, 18.3 percent), the cigarette and tobacco tax ($98 million, 8.8 percent), the alcoholic beverage tax ($43.2 million, 3.9 percent), and the motor vehicle sales or use tax ($41.5 million, 3.7 percent). Insurance premium tax and public utilities tax provide an additional $62 million.

The state obtains $197.3 million (17.6 percent) from severance taxes, mainly from oil and gas. Only Louisiana receives a larger percentage of state revenues from the severance tax (32 percent).

The Texas general sales tax was first imposed in 1962 at 2 percent. In 1964, sale of work clothes were eliminated from the list of exemptions from the sales tax. All uncooked foods are exempt from the tax.

In 1965, the cigarette tax was increased from 8 cents to 11 cents per pack. The gasoline and motor fuel tax is 5 cents per gallon. Distilled liquor is taxed at the rate of $1.68 per gallon.

Texas has neither a corporation net income tax nor an individual net income tax.

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